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ORIGINAL  
OPEN MEETING

410

MEMORANDUM

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Arizona Corporation Commission

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2004 APR -6 P 2:55

TO: THE COMMISSION

APR - 6 2004

AZ CORP COMMISSION  
DOCUMENT CONTROL

FROM: Utilities Division

DATE: April 6, 2004

DOCKETED BY

RE: MORENCI WATER AND ELECTRIC COMPANY - APPLICATION FOR APPROVAL OF AN ELECTRIC SERVICE AGREEMENT WITH PHELPS DODGE MORENCI, INC. (DOCKET NO. E-01049A-04-0135)

On February 25, 2004, Morenci Water and Electric Company ("MWE") filed an application for approval of an electric service agreement with Phelps Dodge Morenci, Inc. ("PD"). On March 3, 2004, MWE filed a letter to extend the time clock for review of the agreement to April 21, 2004. On March 17, 2004, MWE filed a revised agreement to correct errors.

MWE currently provides service to PD for its mining operations in Greenlee County under an electric service agreement approved by the Commission on April 8, 1998 (Decision No. 60807).

MWE has constructed a 345 kV transmission line. The additional line was needed to provide additional transmission capacity to meet PD's increased load, to increase the reliability of the MWE electrical system, and to increase access to the wholesale power market. The line is expected to be energized by May 31, 2004. Usage of the new transmission line will reduce and eventually replace usage of Southwest Transmission Cooperative's line.

The proposed agreement is almost identical to the current agreement except that MWE and PD have agreed to add a transmission charge to cover the cost of the new transmission line. Over 98 percent of the capacity of the new line will be used to provide service to PD.

MWE does not have a tariff specifically for large industrial customers such as PD. Currently, all customers pay a customer charge of \$5.50 per month, an energy charge of \$0.1015 per kWh, and a purchased power and fuel adjustor of -\$0.01391 per kWh. Under the current agreement, PD pays a customer charge of \$500.00 per month and an energy charge based on MWE's system average cost of electricity (including power, energy, and transmission costs and losses) plus a markup of \$0.00035 per kWh. MWE's purchased power and fuel adjustor does not apply to PD because any increases or decreases in purchased power costs are reflected in the calculation of MWE's system average cost of electricity. The proposed agreement contains the same rates but adds a transmission charge of \$0.001738 per kWh. The transmission charge is calculated to cover the capital cost of the new line as well as the costs for operation, maintenance, and property taxes related to the line.

THE COMMISSION

April 6, 2004

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As a result of the new transmission line, MWE's system average cost of electricity will go down as transmission costs to Southwest Transmission Cooperative are reduced. This will result in a lower energy charge for PD.

MWE has requested that the agreement be approved with an effective date of May 31, 2004. The agreement would remain in effect as long as PD maintains any business operations in MWE's certificated area but could be terminated by either party with six-months notice.

Staff recommends that the proposed electric service agreement, as revised, be approved because the revenue that MWE would receive from PD would continue to cover the costs of serving PD.

Staff also analyzed this application in terms of whether there were fair value implications. Assuming that the new transmission line were to be put in rate base, Staff estimates that the new transmission line and the proposed agreement would result in total operating revenues for MWE of \$65,200,000, an estimated rate base of \$17,100,000, and a rate of return of 8.8 percent. These fair value findings are made only for the purposes of this proceeding and should be strictly limited for use in this proceeding and should not be used for any purpose in any subsequent rate proceeding.

Staff further recommends that the Commission specify in its Order that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with PD.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:BEK:red

ORIGINATOR: Barbara Keene

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 MARC SPITZER

Chairman

3 WILLIAM A. MUNDELL

Commissioner

4 JEFF HATCH-MILLER

Commissioner

5 MIKE GLEASON

Commissioner

6 KRISTIN K. MAYES

Commissioner

7  
8 IN THE MATTER OF MORENCI WATER }  
AND ELECTRIC COMPANY - }  
9 APPLICATION FOR APPROVAL OF AN }  
10 ELECTRIC SERVICE AGREEMENT WITH }  
PHELPS DODGE MORENCI, INC. }

DOCKET NO. E-01049A-04-0135

DECISION NO. \_\_\_\_\_

ORDER

11  
12 Open Meeting  
13 April 20 and 21, 2004  
14 Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 1. Morenci Water and Electric Company ("MWE") is certificated to provide electric  
18 service as a public service corporation in the State of Arizona.

19 2. On February 25, 2004, MWE filed an application for approval of an electric service  
20 agreement with Phelps Dodge Morenci, Inc. ("PD"). On March 3, 2004, MWE filed a letter to  
21 extend the time clock for review of the agreement to April 21, 2004. On March 17, 2004, MWE  
22 filed a revised agreement to correct errors.

23 3. MWE currently provides service to PD for its mining operations in Greenlee  
24 County under an electric service agreement approved by the Commission on April 8, 1998  
25 (Decision No. 60807).

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27 ...

28 ...

1           4.       MWE has constructed a 345 kV transmission line. The additional line was needed  
2 to provide additional transmission capacity to meet PD's increased load, to increase the reliability  
3 of the MWE electrical system, and to increase access to the wholesale power market. The line is  
4 expected to be energized by May 31, 2004. Usage of the new transmission line will reduce and  
5 eventually replace usage of Southwest Transmission Cooperative's line.

6           5.       The proposed agreement is almost identical to the current agreement except that  
7 MWE and PD have agreed to add a transmission charge to cover the cost of the new transmission  
8 line. Over 98 percent of the capacity of the new line will be used to provide service to PD.

9           6.       MWE does not have a tariff specifically for large industrial customers such as PD.  
10 Currently, all customers pay a customer charge of \$5.50 per month, an energy charge of \$0.1015  
11 per kWh, and a purchased power and fuel adjustor of -\$0.01391 per kWh. Under the current  
12 agreement, PD pays a customer charge of \$500.00 per month and an energy charge based on  
13 MWE's system average cost of electricity (including power, energy, and transmission costs and  
14 losses) plus a markup of \$0.00035 per kWh. MWE's purchased power and fuel adjustor does not  
15 apply to PD because any increases or decreases in purchased power costs are reflected in the  
16 calculation of MWE's system average cost of electricity. The proposed agreement contains the  
17 same rates but adds a transmission charge of \$0.001738 per kWh. The transmission charge is  
18 calculated to cover the capital cost of the new line as well as the costs for operation, maintenance,  
19 and property taxes related to the line.

20           7.       As a result of the new transmission line, MWE's system average cost of electricity  
21 will go down as transmission costs to Southwest Transmission Cooperative are reduced. This will  
22 result in a lower energy charge for PD.

23           8.       MWE has requested that the agreement be approved with an effective date of May  
24 31, 2004. The agreement would remain in effect as long as PD maintains any business operations  
25 in MWE's certificated area but could be terminated by either party with six-months notice.

26           9.       Staff has recommended that the proposed electric service agreement, as revised, be  
27 approved because the revenue that MWE would receive from PD would continue to cover the  
28 costs of serving PD.

11. Staff has further recommended that the Commission specify in its Order that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with PD.

1. MWE is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

3. The Commission, having reviewed the application and Staff's Memorandum dated March 26, 2004, concludes that it is in the public interest to approve the electric service agreement, as revised.

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ORDER

4 THEREFORE, IT IS ORDERED that the electric service agreement, as revised, be and  
5 hereby is approved.

6 IT IS FURTHER ORDERED that approval of the electric service agreement at this time  
7 does not guarantee any future ratemaking treatment of the agreement with PD.

8 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

9  
10 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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12  
13 CHAIRMAN

COMMISSIONER

COMMISSIONER

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15  
16 COMMISSIONER

COMMISSIONER

17 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
18 Secretary of the Arizona Corporation Commission, have  
19 hereunto, set my hand and caused the official seal of this  
20 Commission to be affixed at the Capitol, in the City of  
21 Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

22  
23 \_\_\_\_\_  
24 BRIAN C. McNEIL  
Executive Secretary

25 DISSENT: \_\_\_\_\_

26  
27 DISSENT: \_\_\_\_\_

28 EGJ:BEK:red/TS

Decision No. \_\_\_\_\_

1 SERVICE LIST FOR: Morenci Water and Electric Company  
2 DOCKET NOS. E-01049A-04-0135

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